

Independent Auditor's Report

Speaker, House of Representatives
and
President Pro-Tem of the Senate
Governor
General Assembly, State of Vermont
State House
Montpelier, Vermont

We have audited the accompanying general purpose financial statements of the State of Vermont and the combining, individual fund and account group financial statements of the State, as of June 30, 1997 and for the year then ended, as listed in the table of contents. These financial statements are the responsibility of the State's management. Our responsibility is to express an opinion on these statements based on our audit. We did not audit the financial statements of certain entities that aggregate three percent and two percent, respectively of the assets and operating revenues of the Special Fund, 37 percent and one percent, respectively, of the assets and operating revenues of the Federal Revenue Fund, 55 percent and 72 percent, respectively, of the assets and operating revenues of the Enterprise Funds, 99 percent and 97 percent, respectively, of the assets and operating revenues of the Expendable Trust Funds and 100 percent of the assets and operating revenues of the component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for those entities, is based solely on the reports of the other auditors.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement. The financial statements of the Universal Service Fund (blended into the Special Fund) and the Special Environmental Revolving Fund (blended into the Federal Revenue Fund), the Vermont Lottery Fund (an Enterprise Fund) and the Vermont Center for Geographic Information (component unit) were not audited in accordance with Government Auditing Standards. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinion.

We were unable to audit the Combined Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General and Special Revenue Fund Types because appropriated and non-appropriated funds were commingled in the Statement for the Special Revenue Funds and necessary adjustments were not made to remove non-appropriated funds from the Statement for the Special Revenue Funds. Generally Accepted Accounting Principles require the "actual column" of the Statement to be prepared on the same basis of accounting as the "budget column," the inclusion of the non-appropriated funds in the Statement for the Special Revenue Funds is not consistent with generally accepted accounting principles.

As discussed in Note 1, the General Fixed Asset Account Group is not presented in the accompanying general purpose financial statements, nor is disclosure of changes in general fixed assets provided in the footnotes, as required by generally accepted accounting principles. The State has not maintained records of its general fixed assets and this amount is not known.

In our opinion, based on our audit and the reports of the other auditors, except for the effects of such adjustment, if any, as might have been determined to be necessary had we been able to audit the Combined Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General and Special Revenue Fund Types, as described in the second preceding paragraph, and except for the effect on the financial statements of the omission of the General Fixed Asset Account Group, as described in the preceding paragraph, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the State of Vermont as of June 30, 1997, and the results of its operations and cash flows of its proprietary and nonexpendable trust fund types for the year ended in conformity with generally accepted accounting principles.

Also in our opinion, based on our audit and the reports of other auditors, the combining, individual fund and account group financial statements referred to above present fairly, in all material respects, the financial position of each of the individual funds and account group financial statements of the State of Vermont as of June 30, 1997, and the results of operations of such individual funds and the cash flows of the individual proprietary funds and nonexpendable trust funds for the year then ended in conformity with generally accepted accounting principles.

As discussed in Note 10 to the General Purpose Financial Statements, the State made changes in its method of reporting for the year ended June 30, 1997.

We did not audit the accompanying financial information listed as Supplementary Financial Data and Statistical Section in the table of contents and, therefore, we express no opinion thereon. Management has presented this information for purpose of additional analysis and it is not a required part of the general purpose financial statements of the State of Vermont.

In accordance with Government Auditing Standards, we have also issued our report on our consideration of the State's internal controls over financial reporting and our tests of its compliance with certain laws and regulations, contracts and grants, dated June 30, 1998.

This report is intended for the information of management of the State of Vermont and other government agencies. However, this report is a matter of public record and its distribution is not limited.

Edward S. Flanagan
Vermont State Auditor

June 30, 1998